

Message Text

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SUBJECT: RECENT CARLI PROPOSAL FOR IMPROVING THE ECONOMIC
POSITION OF ITALIAN COMPANIES

REF: USDOC 17048

1. PROPOSAL BY GUIDO CARLI, PRESIDENT OF CONFINDUSTRIA, FOR IMPROVING THE FINANCIAL POSITION OF CERTAIN GROUPS OF ITALIAN COMPANIES WAS CONTAINED IN SEVERAL ARTICLES IN THE ITALIAN PRESS THAT BEGAN APPEARING IN SEPTEMBER OF THIS YEAR, ALLEGEDLY BASED ON DOCUMENTS THEN IN DRAFT STAGE IN CONFIDUNSTRIA. TO DATE, CARLI HAS NOT MADE A FORMAL SPEECH ON PROPOSAL, NOR HAS CONFINDUSTRIA PUBLISHED AN OFFICIAL VERSION. FROM DISCUSSION IN THE PRESS, IT DOES NOT APPEAR THAT THE PROPOSAL WILL BE ADOPTED, BUT IT HAS SERVED TO DRAW ATTENTION TO THE GRAVE FINANCIAL SITUATION OF SOME ITALIAN FIRMS. THE FOLLOWING IS AN UNOFFICIAL, INFORMAL EMBASSY SUMMARY OF PRESS ARTICLES AND BRIEFING DOCUMENTS.

2. /BACKGROUND/ THE FINANCIAL SITUATION OF SOME LARGE ITALIAN FIRMS HAS DETERIORATED BEYOND THE LIMITS OF SOUND MANAGEMENT. THIS DEVELOPMENT RESULTS FROM THE CURRENT IMPOSSIBILITY OF RAISING EQUITY CAPITAL, THE DRYING-UP OF SOURCES OF MEDIUM AND LONG TERM CREDIT, AND THE GROWTH OF THE SHORT-TERM INDEBTEDNESS OF FIRMS. MOREOVER, WITH INTEREST RATES IN ITALY THREE TIMES THE LEVELS ABROAD AND LIKELY TO REMAIN SO FOR SOME TIME, INTEREST EXPENSE HAS BECOME EXCESSIVE BURDEN FOR FIRMS, HAVING ALREADY REACHED

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THE POINT OF EQUALING 35-50 PERCENT OF WAGES AND SALARIES

EXPENSE FOR SOME GROUPS OF EXPORT FIRMS. THE RESOLUTION OF THIS SITUATION IS THE KEY FACTOR IN MAKING POSSIBLE THE REAL RESTRUCTURING OF ITALIAN INDUSTRY, A PLAN FOR WHICH IS BEING ADVANCED BY THE PRESENT GOVERNMENT.

3. /THE PROPOSAL/. CARLI'S PROPOSED RESTRUCTURING OF THE PRESENT SHAKY FINANCIAL POSITION OF SOME ITALIAN FIRMS WOULD TAKE A FORM SIMILAR TO A REORGANIZATION: BANKS' CLAIMS ON THE FIRMS IN QUESTION WOULD BE CONVERTED TO EQUITY INTERESTS. ACCORDING TO THE PROPOSAL, THIS OPERATION WOULD SIMPLY RATIONALIZE THE ACTUAL SITUATION. BANKS HAVE ALREADY ACCUMULATED SUBSTANTIAL LOSS RESERVES AGAINST SOME OF THESE CREDITS. BANKS WOULD RECEIVE AN OWNERSHIP INTEREST SIGNIFICANTLY LESS IN VALUE THAN THE ORIGINAL AMOUNT OF THEIR LOANS, BUT THE LOANS ON THEIR BOOKS HAVE ALREADY BEEN SUBSTANTIALLY DEPRECIATED. THE PROPOSAL ENVISAGES THE FORMATION OF A BANK CONSORTIUM IN ORDER TO CARRY OUT THE OPERATION ON A SCALE LARGE ENOUGH TO HAVE A SIGNIFICANT BENEFICIAL IMPACT ON ITALIAN INDUSTRY. INDIVIDUAL BANKS, HOWEVER, WOULD INDEPENDENTLY MANAGE THE RESULTANT STOCK PORTFOLIOS WITH A VIEW TO SELLING THEM EVENTUALLY TO THE PUBLIC.

4. ALTHOUGH THE BANKING LAW WOULD CONSTITUTE AN OBSTACLE TO THE PROPOSAL, SINCE IT RESTRICTS BANKS FROM PARTICIPATING IN THE BOARD MEETINGS OF PRIVATE FIRMS, IT IS BELIEVED THAT A WAY COULD BE FOUND TO OVERCOME THIS DIFFICULTY. THIS BAR TO BANK PARTICIPATION HAS ALREADY BEEN RELAXED IN THE CASE OF FIRMS IN THE STATE SECTOR, AND IT IS THIS LATTER CATEGORY OF FIRMS FOR WHICH THE PROPOSAL WOULD HAVE THE GREATEST PRACTICAL SIGNIFICANCE. VOLPE

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